# JK LAKSHMIPAT UNIVERSITY
# JAIPUR

# RESEARCH PROPOSAL

## SOCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS: AN EMPIRICAL STUDY OF RAJASTHAN

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## 1. Conceptual Framework and Variate Structure

Microfinance refers to the provision of a broad range of financial services, such as small loans saving deposits, money transfers, and insurance to poor and low income households and their microenterprises. However, globally the sector has been dominated by the provision of microcredit services, namely small loans to the poor with or without collateral.

The core of microfinance is its mission to serve clients – to help improve their lives. For years, the sector focused on sustainability and growth, measured in terms of financial performance. For most part sustainability was all about "the financials"—social performance was taken for granted, which led many microfinance institutions (MFIs) to neglect its measurement and management. As criticism of the sector has increased, social performance has been mainstreamed (Copestake, 2007). The latter half of the 1990s was marked by a debate between two approaches to microfinance, the "financial systems" approach and the "poverty lending" approach (Robinson, 2001). While the former emphasized institutional sustainability, the latter emphasized poverty reduction. Rhyne (1998) described poverty and sustainability as the "yin and yang" of microfinance, implying that they are two sides of a whole, each incomplete without the other. She pointed out that ultimately members of both camps had the same objective, namely that of increasing outreach.

Gibbons and Meehan (1999) pointed out that while the need for sustainability has been by and large accepted, there is less clarity on how to approach it without losing sight of the poverty reduction goal. This issue was brought into sharper focus when post-2007, MFIs began to raise equity from commercial sources. However, as commercial investors are by definition profit oriented, their involvement in the ownership of the MFI raises the prospect of changing its focus from social to commercial objectives, commonly referred to as "mission drift"[1].

Recent microfinance crisis and the subsequent discussion have raised questions on the practices followed by microfinance institutions (MFIs). This has initiated a public debate over the tradeoff between financial performance and the ability to achieve the social mission associated with

[1] Mission drift may manifest itself in various ways, such as by MFIs serving more well-off segments of the population or by MFIs charging higher rates of interest

microfinance. There are contradictory viewpoints regarding the pairing of financial sustainability and social objectives. Some observers suggest an incompatibility, pointing to problems of mission drift experienced by MFIs that pursue profitability by insisting on physical guarantees, increasing loan amounts and targeting the better-off (Christen, 2001). Others emphasize synergy, arguing that social performance improves mutual trust, client participation and satisfaction, which translates into higher repayment rates and lower transaction costs (Lapenu, 2007).

Paxton (2002), one of the first empirical studies on the subject of trade-off, using a modified poverty outreach index, shows that financial performance can adversely affect outreach. The study utilizes a framework for measuring depth of outreach that includes gender, location, literacy, and income levels of clients. Using data of 18 MFIs from Africa and Latin America, the study finds that the depth of outreach index is positively correlated with the institutional Subsidy Dependence Index (SDI). The similar findings are reported by Olivares-Polanco (2005) in a study done using data of 28 MFIs from Latin America for the period 1999-2001. The outreach is measured in terms of the loan size of MFIs. Using simple OLS, Olivares-Polanco's study confirms the existence of a trade-off between sustainability and outreach. Makame and Murinde (2006) analyze the outreach versus sustainability trade-off using a balanced panel dataset for 33 MFIs in five East African countries for the period 2000-2005. Using different measures of the depth (loan size) and breadth (number of borrowers) of outreach, they find strong evidence for a trade-off between outreach and sustainability and efficiency. The most comprehensive study is from Cull et al. (2007).

Using an extensive data set of 124 MFIs from 49 countries it supports the findings of earlier studies, which, however, used less rigorous techniques and/or smaller datasets. The average loan size is used as a proxy for poverty levels of customers. The study finds that the mission drift depends on an institution's lending method. The study suggests that MFIs that focus on providing loans to individuals perform better in terms of profitability. Yet, the fraction of poor borrowers and female borrowers in the loan portfolio of these MFIs is lower than for MFIs that focus on lending to groups. It also suggests that individual-based MFIs, especially if they grow larger, focus increasingly on wealthier clients, a phenomenon termed as "mission drift". This mission drift does not occur as strongly for the group-based MFIs. Thus, Cull et al. do find evidence for a trade-off between efficiency and outreach. Hermes et al (2011) is based on larger

dataset of 435 MFIs for a longer period of 11 years, 1997-2007. They used different measures of sustainability in terms of cost efficiency of microfinance institutions. Using stochastic frontier analysis (SFA) they find that outreach and efficiency of MFIs are indeed negatively correlated.

There are other studies which either do not find significant evidence to accept the tradeoff or find complimentary relationship between financial performance and the social performance. Luzzi and Weber (2006) using factor analysis on the data of 45 MFIs for the period 1999-2003 find that correlation between the two factors (sustainability and outreach) is low. Consequently, the results do not confirm nor contradict the existence of a trade-off between the two dimensions of performance. Gaamaa Hishigsuren (2007) has attempted to address the issue of mission drift using a case study of a microfinance program in India, Activists for Social Alternatives (ASA). Using mixed method design to measure the implications of rapid scaling up on the social mission of the program, he finds that ASA has not drifted from its poverty alleviation mission significantly when the drift is measured in terms of depth, quality, and scope of outreach. Mersland and Strom (2010) investigate mission drift using average loan size, MFIs lending methodology and gender as mission drift measures. They employ a large data set of 379 rated, multi-country MFIs for the period 2001-2008, and perform panel data estimations. The average loan size has not increased in the industry as a whole, nor is there a tendency towards more individual loans or a higher proportion of lending to urban costumers. Thus there is no evidence of mission drift.

Gutiérrez and Goitisolo (2011) have studied 791 MFIs of different types and areas across the world as per the data reported by the MFIs to Microfinance Information Exchange (MIX) in 2007. No contradiction (or connection) between profitability and social impact is seen. Therefore it is possible to work with the poorest populations as there is no tradeoff between social and financial performance. Recent work by Shakil Quayes (2012) using 702 MFIs from 83 countries show that attainment of financial sustainability is not a barrier to outreach efforts, and it may actually facilitate greater depth of outreach. For the full sample, the study shows that there is no relationship between outreach and profitability but when the full sample is divided into two groups it shows that depth of outreach and financial sustainability have negative relationship for the low disclosure firms, but they have a positive complementary relationship for the high disclosure firms.

Thus there is no conclusive evidence on the tradeoff or synergy between the financial performance and the social performance of the MFIs. But these studies have taken a very narrow view of the social performance of MFIs in terms of proxy indicators like average loan size for measuring outreach. In this context the emerging social performance standards set by Social Performance Task Force (SPTF) and employed by social performance reporting and auditing platforms like MIX[2] and CERISE[3] are used for assessing the social performance of MFIs. Most of the MFIs have a social mission. They may be working, for example, to broaden access to financial services, reduce poverty, empower women, build community solidarity, or promote economic development. Social performance refers to the extent of their success in meeting these goals. Social performance (SP), or the social bottom line, is about making an organization's social mission a reality.

The Social Performance Task Force (SPTF) defines social performance as: *"The effective translation of an institution's social mission into practice in line with accepted social values."* This mission may include serving larger numbers of poor and excluded people; delivering high-quality and appropriate financial services; creating benefits for clients; and improving the social responsibility of an MFI (Hashemi, 2007). This notion of social performance ("do good"), goes beyond the concept of client protection and social responsibility ("do no harm"). Social responsibility applies to all economic sectors and refers to an organization's responsibility for the impact of its decisions and activities on society and the environment through transparent and ethical behavior (Gendron, 2009). Social performance looks at the entire process by which impact is created. It therefore includes analysis of the declared objectives of institutions, the effectiveness of their systems and services in meeting these objectives, related outputs (for example, reaching larger numbers of very poor households), and success in effecting positive changes in the lives of clients.

The MFIs are expected to integrate social performance reporting with standard financial reporting. The integration of social performance data with financial and operational data

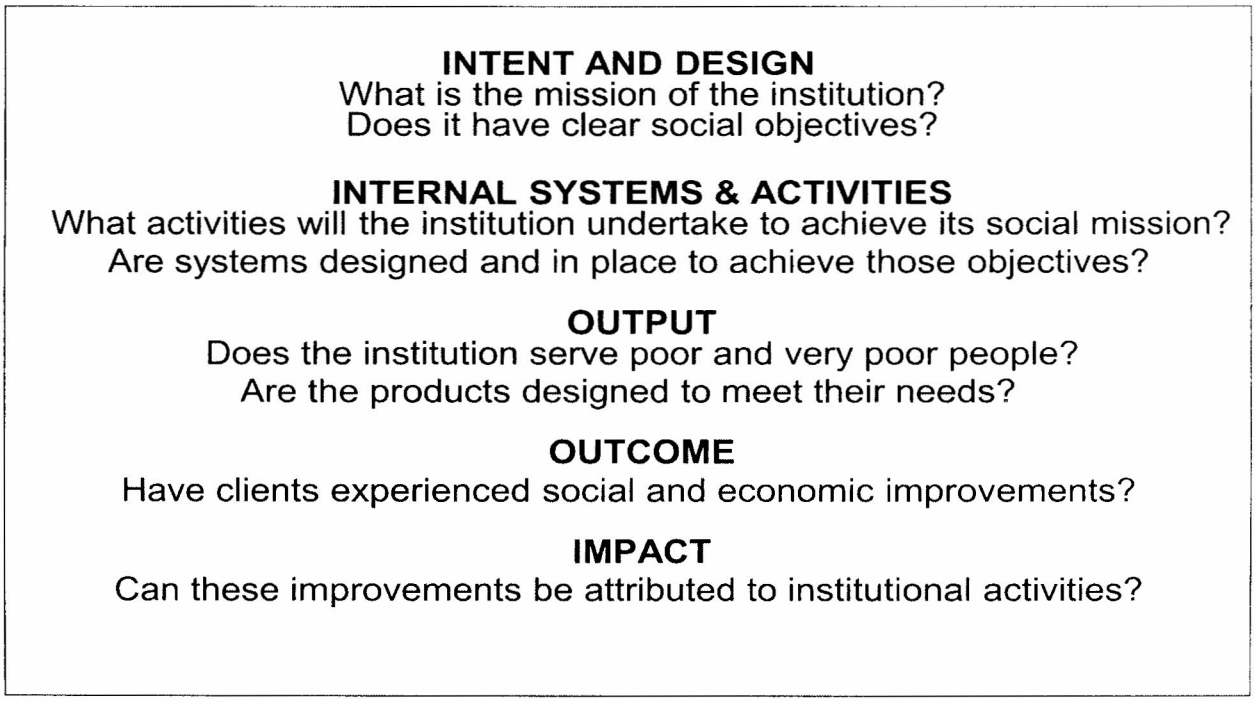
[2] MIX Market (www.mixmarket.org) is a data hub where microfinance institutions (MFIs) and supporting organizations share institutional data to broaden transparency and market insight. This exchange enables users to establish reporting standards, alleviate reporting burden, and promote responsible investment.

[3] CERISE (*Comité d'Echanges de Réflexion et d'Information sur les Systèmes d'Epargne-crédit*), is a knowledge exchange network for microfinance practitioners.

highlights a higher level of transparency and accountability into the social performance and responsible practices of a microfinance institution. The double bottom line reporting underscores the importance of social performance management, increases the visibility of MFIs' social performance practices, and makes it easier for users to analyze an institution's performance across both financial and social indicators.

The concept of social performance focuses not only on the final impact, but also provides a framework to understand the process by which social objectives are achieved, as summarized in the diagram below:

**Figure1: Social Performance Framework**


INTENT AND DESIGN
What is the mission of the institution?
Does it have clear social objectives?
INTERNAL SYSTEMS & ACTIVITIES
What activities will the institution undertake to achieve its social mission?
Are systems designed and in place to achieve those objectives?
OUTPUT
Does the institution serve poor and very poor people?
Are the products designed to meet their needs?
OUTCOME
Have clients experienced social and economic improvements?
IMPACT
Can these improvements be attributed to institutional activities?

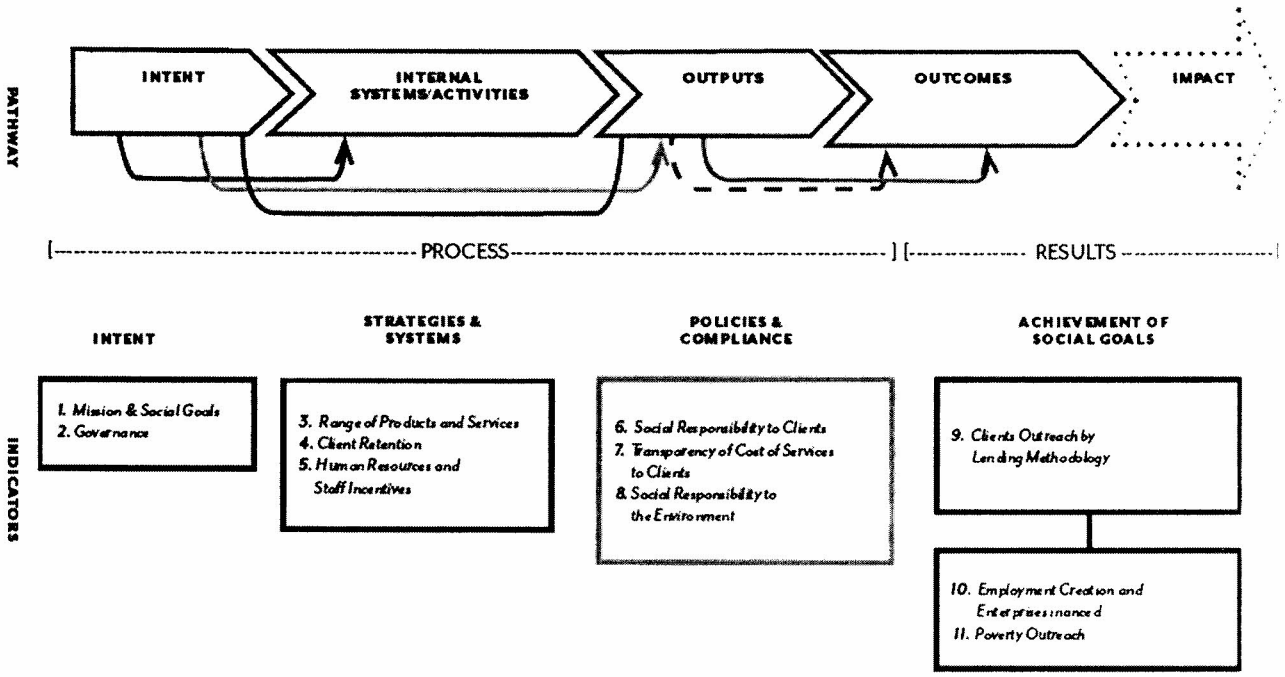
Source: Social Performance Task Force (SPTF)

Social Performance Assessment (SPA) is a measure of how well an institution uses its systems and operations to generate positive social benefits. Social performance assessment has dramatically evolved during the past few years, with the development of social audits, social ratings and reporting standards. Social Performance Management (SPM) is the use of this measure to make decisions and improve practices. Social performance management is an

institutionalized process of translating social mission into practice. It involves setting clear goals, monitoring and assessing progress towards those goals, and using this information to improve performance and practice. The principles of Social Performance Management can be summarized as follows:

- **Translate mission and values** into clear, measurable objectives to capture intentional social benefits.
- **Design and implement systems** for social responsibility, including client protection.
- **Track, understand and report** progress on achieving social objectives.
- **Align business processes** (marketing, human resources, and governance) to achieve both social and financial objectives.
- **Make decisions** on the basis of both social and financial outcomes.

**Social Performance Pathway and Indicators**




Source: Social Performance Task Force 2011

Social Performance Management (SPM) seeks to balance the needs of various stakeholders, including the external need to demonstrate impact and an MFI's internal need to improve practices. Financial portfolio data alone are not sufficient to allow managers to make operational and strategic decisions or to permit donors to assess the social value of investment choices. SPM focuses on gathering information that allows MFIs to understand their clients more closely and to improve the appropriateness and effectiveness of the financial services. The other category of empirical work has focused on complete picture of social performance of a MFI. Unlike the earlier studies, instead of just using the outreach indicators for measuring the social performance they have used process indictors and the result indicators of social performance based on Social Performance framework described above. They are based on either MIX social performance reporting indicators or CERISE's Social Performance Indicators (SPI).

Bédécarrats, Angora and Lapenu (2009) using data from 126 MFIs of 39 countries for the period 2005-2008 confirms what many studies have suggested based on incomplete data: social performance and financial performance are compatible. Targeting the poor clearly implies higher costs for MFIs. However other aspects of social performance—namely geographical targeting when associated with participatory models, well-adapted loan technologies and social responsibility— are positively correlated with good operational and financial performance. The correlation is even stronger for large MFIs, which benefit from economies of scale. The study is based on CERISE Social Performance Indicators tool which give a firm's social performance index using four dimensions, targeting and outreach, appropriateness of products and services, benefits to clients and social responsibility and uses data from CERISE SPI audit database. Tchuigoua (2010) using a dataset of 202 Global MFIs for the period 2001-2005 from MIX database shows the commercial approach to microfinance does not seem incompatible with the social mission of MFIs, irrespective of geographical location. Bédécarrats, Baur, Lapenu (2011) using dataset of 295 different MFIs from 51 countries for the period 2006-2011 shows that social performance and financial performance are compatible. Providing inclusive, appropriate services in a responsible way that clearly benefits clients, positively impacts the fundamentals of financial sustainability: productivity, efficiency and portfolio quality. This study is also based on CERISE SPI audit database and the tool.

Gonzalez (2010) using 208 Global MFIs based on MIX indicators and database confirmed several expected trade-offs and synergies between SP and FP, including: efficiency trade-offs for targeting the poorest, SP training and social responsibility (SR) to staff, productivity synergies for SP training and SR to staff, and productivity and efficiency synergies for client retention. The results confirm that that serving the very poor and poor comes at a cost in terms of efficiency, but not in terms of risk or productivity, even after considering differences in loan sizes. Rural MFIs are more productive and efficient than urban ones, contrary to the common belief. Adair and Berguiga (2013) using econometric panel study (1998-2011) of 64 MFIs in nine Middle East and North Africa (MENA) countries and using data from MIX database show that SP has a negative impact on FP and conversely. The determinants of these two performances vary according to information transparency, geographical location, credit methodology and the operating areas of MFIs.

Other than studying the tradeoff in microfinance some researches have focused on measuring the social performance of the MFIs and its determinants. Lensink and Mersland (2009) using 290 rated MFIs from 64 countries for the period 1998-2007, shows that 'plus' providers are NGOs, unregulated by banking authorities and mainly practice village banking methodologies. In line with the hypothesis 'plus' providers have lower financial results compared to specialist MFIs. 'Plus' MFIs do however reach out to poorer customers and more female customers compared to their specialized peers. Thus have greater social performance. Dewez and Neisa (2009) using data from 64 MFIs for the period 2007-2008 from 27 countries find that geographic zones with advanced microfinance sectors display higher scores of social performance; MFIs' legal status and social performance do not seem to be related; older MFIs have higher social performance scores; MFIs with high rural coverage have better social performance results; relationship between social and financial performance is positive. The study is based on a tool ECHOS developed by Incofin IM, that evaluates MFIs on mission and social vision, outreach, customer service quality, human resources and environment and corporate social responsibility.

Engels (2010) using dataset of 600 MFIs from 84 countries and using MIX database finds that regulation, size and country risk rating negatively affect the social performance of MFIs; network membership positively affects the social performance of MFIs and age do not affect the social performance of MFIs. There is also a strong evidence for the existence of a trade-off

between the financial and social performance of MFIs. Bédécarrats, Lapenu and Tchala (2010) using 287 SPI audits from 223 MFIs from 53 countries using CERISE social performance tool and database, shows that Asian MFIs tend to target more actively the vulnerable people, while African ones are generally more participative. Among other findings in this study that not for profit institutions score generally better than for profit, while bigger MFIs are generally less oriented towards the poor and the excluded but score better on the other social performance aspects. The analysis confirms that social performance and financial performance are compatible. Kravčenko (2011) using dataset of 348 Global MFIs from MIX database and Data Envelopment Analysis shows that there is evidence that confirms hypothesis of financially driven motivation of non-NGO MFIs since worldwide mean values are higher for financial efficiency rather than social efficiency. In addition, non-NGO MFIs are more financially and as well in overall efficient than NGO MFIs. This is contradictory to findings of Mersland and Strom (2008) that NGOs perform financially and socially neither better nor worse than MFIs organized as shareholder firms.

Pistelli, Simanowitz and Thiel (2011) have tried to assess the various aspects of the social performance management using a database of 405 MFIs from 73 countries for the period 2009-2010 based on MIX database. The proportion of banks reporting social performance data in addition to financial data is as high as that of NGOs. Latin America is most active in social performance reporting. Measurement of poverty outreach is limited to a few MFIs and data on this outreach is difficult to benchmark because of the variety of tools available and the different poverty lines used. Despite the fact that poverty alleviation is a stated development goal for most MFIs, poverty data is not consistently tracked and individuals living below the poverty line represent only a small percentage of new clients. Marr and Awaworyi (2012) have developed a social performance rating for 878 MFIs from 98 countries for the period 2000-2010 using MIX database. The paper provides evidence that older MFIs as well as regulated ones tend to perform less socially as compared to younger and non-regulated MFIs. In addition, the results also point to the fact that MFIs with more assets and higher ratios for loans per loan officer have the tendency of performing more socially.

Thrikawala, Locke and Reddy (2013) have measured the social performance of the 415 MFIs from 73 countries for the period 2008-2009 based on MIX database. This study shows that 81

per cent of MFIs who reported social performance aim to reach low income clients rather than the poor (61 per cent) and very poor (32 per cent). Of 415 MFIs who reported social performance, almost all target female borrowers (84 per cent), clients living in urban or semi-urban areas (80 per cent) and clients living in rural areas (77 per cent). About 86 per cent of the sample has poverty reduction objectives when providing financial and non-financial products and services to clients.

In one of the unique attempts by taking information directly from the clients for assessing social performance, Kipesha (2013) has tried to evaluate the performance of 29 MFIs in Tanzania by integrating financial and nonfinancial performance metrics. The sample size included 870 respondents including both customers and the employees. The study used a balanced scorecard approach for MFIs as proposed by Microfinance Center (MFC)[4], with five dimensions financial. social, customer, learning and growth and internal business process. The average nonfinancial performance was high indicating that Microfinance institutions were better performing in nonfinancial measures compared to financial measures.

One of the conclusive findings from the literature is that social performance is dependent on geography of operation and the level of development of the microfinance sector in the country. However, no such conclusive evidence is found on the legal status (for profit v/s not for profit) of the MFIs.

## 2. Rationale of the Study

In the early days of microfinance, social assessments were imposed by outsiders. Donors, NGOs and governments who saw microfinance's potential as a poverty reduction tool wanted proof of the link between microfinance activities and changes observed in target populations to justify their investments. The result was several long and costly economic impact studies in the late 1980s, ill-suited to practitioners. By the mid-1990s, concerns had shifted to growth and sustainability. The sector was focused on client outreach, profitability and subsidy independence. Now, with rising problems of delinquency, bankruptcy, massive client drop-outs and mounting

[4] The Microfinance Centre is a regional microfinance resource center and network which bring together 103 organizations (including 78 MFIs) in 27 countries of Central Europe and Asia.

critiques of the sector, the importance of qualitative analysis has come to the forefront. Insufficient data has long been the main obstacle in studying the social performance of MFIs. Impact studies are limited, costly to replicate and difficult to compare (Copestake, 2003). Recent works using sophisticated techniques (Cornée, 2006; Gurtierrez-Nieto & al., 2007; Cull et al., 2009; Mersland & Strøm, 2009; Lensink & Niels, 2009) have mainly used financial data and inadequate social performance indicators such as portfolio size, average loan size or number of women clients (Armendariz & Szafarz, 2009; Dunford, 2002). These proxies offer little more than a vague idea of depth of outreach – only one of the many dimensions of social performance. Moreover, they only account for credit operations, effectively ignoring other aspects of microfinance.

In addition to this most of the studies which have been conducted are based on self-reported data by the MFIs with no verification of the ground realities. Such reports are based on the data as provided by the MFIs themselves with no participation of the microfinance clients. The client information and feedback is missing in these studies. Also these global studies offer little participation to Indian MFIs as most of the Indian MFIs are not reporting social performance parameters.

Thus in such a scenario with insufficient and unverified data for Indian MFIs there is a need for a research based on comprehensive framework of Universal Standard for Social Performance Management (USSPM) which also takes client information and feedback into consideration for assessing the social performance of the sector in India.

## 3. Objectives

The primary research questions addressed by the research are:

1. What is the social performance status of MFIs in Rajasthan?
    i. Do they have the intention of achieving social mission?
    ii. Do they have the strategy and systems in place to accomplish this?
    iii. Do they monitor the progress and make necessary corrective actions?
    iv. Are there any gaps in the objectives set by an MFI and the actual achievement of these objectives?

2. Is the social performance of an MFI related to the legal status (For-Profit/Not-For Profit) of an MFI?
3. Is the social performance of an MFI related to the area of operation (Rural/Urban) of an MFI?

The objectives of the research are:

1. To conduct the Social Performance Assessment (SPA) of MFIs along the different stages of social performance pathway
2. To study the relationship between the legal status and social performance of an MFI
3. To study the relationship between the area of operation and social performance of an MFI

## 4. Research Methodology

### *a. Nature of the Study*

The study will be based on surveys conducted at the MFI, household and the client level. The surveys will consist of household profiling survey, client satisfaction and awareness survey of the existing clients and the survey of the dropouts. The result indicators will measure the depth of outreach and the variety, appropriateness and transparency of financial services. The MFI survey will be based on the information to be provided by the senior management and the field workers.

### *b. Research Design*

The study will be based on multistage randomized design with enquiry at three levels: MFI level household level and the client level. The following are the stages involved in the research:

i. Firstly, 6 MFIs operational in Rajasthan will be selected. Out of these 3 will be For-Profit institutions and remaining 3 will be Not For-Profit institutions. MFIs will be selected using random sampling from among the MFIs having significant client base.
ii. From these MFIs, 600 households will be selected using stratified random sampling on the basis of the client base. The households will be selected both from rural as well as urban areas on the basis of the rural/urban distribution of the clients at these MFIs.

iii. A sample of 60 dropout clients (10 clients from each MFI) will be selected. These will be selected randomly from the list of dropouts of these MFIs.

***c. Sample***

For selecting MFIs, simple random sampling will be used. The households will be selected using stratified random sampling on the basis of the client base of the MFIs. The dropout clients will be selected on the basis of simple random sampling. The sample size will be 6 MFIs, 600 households, 600 existing clients and 60 dropout clients.

***d. Tools***

Social Performance Assessment of the MFIs will be done at three levels: MFI level, household level and the client level. At the MFI level Universal Standards of Social Performance Management (USSPM) will be used. Out of the total of six dimensions of social performance management, MFIs will be judged on the following four dimensions:

- Dimension1: Define and Monitor social goals
- Dimension2: Ensure Board management and employee commitment to social goals
- Dimension3: Design Products, services, delivery models and channels that meet clients' needs and preferences.
- Dimension4: Treat clients responsibly

Client level information will be drawn using a survey to be designed and administered. The Progress out of Poverty Index (PPI)[5] tool for India, will be used for collection of household level poverty, and will be part of the questionnaire for the client survey. Other questions will focus on basic client profiling and indicators for measuring the client satisfaction and awareness levels. A separate questionnaire will be developed for taking the feedback of the dropouts.

[5] PPI is a poverty measurement tool, developed by Grameen Foundation, for organizations and businesses with a mission to serve the poor. The PPI is statistically-sound, yet simple to use: the answers to 10 questions about a household's characteristics and asset ownership are scored to compute the likelihood that the household is living below the poverty line – or above by only a narrow margin. With the PPI, organizations can identify the clients, customers, or employees who are most likely to be poor or vulnerable to poverty, integrating objective poverty data into their assessments and strategic decision-making.

Client level data gives in-depth information about the clients that a microfinance institution is serving and feedback on products and services. The survey of new clients (those who have recently joined the MFI) profiles depth of outreach, whether the organization is reaching its target clients (in line with its mission), serving the poor and/or those excluded from financial services. The survey also captures client awareness of MFI products and features that they are expected to know. The survey with older clients serves to highlight positive responses to MFI services, and to identify issues that may need attention to improve the relevance of services.

Suitable parametric methods of data analysis like ANOVA, z-test and chi-square tests and regression will be used as per the requirements of the study.

## 5. Possible outcomes

The results of the previous studies do not provide any conclusive evidence on the subject of social performance of MFIs. Microfinance Institutions are supposed to fulfill their social goals which they claim as part of their mission. However in their drive for achieving self-sufficiency it is expected that some of them have deviated from their social mission. The Andra Pradesh repayment crisis and the criticism of the sector for high interest rates make it imperative to expect that For-Profit MFIs are not performing socially well in comparison to the Not For-Profit MFIs. We expect the client feedback and information to reveal that MFIs are deviating in their social mission. Thus Not For-Profit MFIs are not expected to do significantly better than For-Profit MFIs in terms of their social performance.

The AP crisis covered mostly the rural areas. So the Urban-Rural divide in terms of social performance is not expected to hold good for the MFIs.

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# CHAPTER OUTLINE OF THE THESIS


**CHAPTER 1. CONCEPTUAL FRAMEWORK**

1.1 Introduction

1.2 Conceptual Framework and Variate Structure

1.3 Rationale

**CHAPTER 2. REVIEW OF LITERATURE**

**CHAPTER 3. METHOD**

3.1 Study

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**CHAPTER 7. SUGGESTIONS & IMPLICATIONS**

7.1 Suggestions

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**APPENDICES**

## Annexure 1: CERISE SPIs

The SPI-CERISE tool is founded upon four major dimensions of social performance:

• **Dimension 1**: Targeting and Outreach

This includes orientation towards poor or marginalized clientele not having access to the banking sector. The questions raised by the SPI-CERISE tool deal with the MFI's targeting strategy (geographic or individual targeting or via loan methodology) and the results of that targeting strategy.

• **Dimension 2**: Appropriateness of products and services

This includes diversification of services so as to adapt them to the needs of this specific public. Simply deciding to target a particular population is not enough. The questions deal with the diversity of the services, the quality of those services (rapidity, proximity, transparency, suitability) and the access to nonfinancial services.

• **Dimension 3:** Benefits to Clients

Establishing relationships of trust with its clients and strengthening their political and social capital. The SPI-CERISE tool questions deal with trust and the MFI's information sharing with clients, participation of the latter in decision making at different levels of the MFI and finally, the MFI's actions in the field of strengthening its clients' social capital.

• **Dimension 4:** Social Responsibility

This includes institution's social responsibilities with respect to its salaried employees, its clients and their communities. The questions mainly deal with the MFI's human resources policy, the MFI's actions which are the expression of social responsibility *vis-à-vis* its clients (impact studies, etc.), or *vis-à-vis* the community.

# Annexure 2: Household Poverty Profiling

## India PPI®: A Simple Poverty Scorecard for India

| Entity | Name | ID | Date (DD/MM/YY) |
|---|---|---|---|
| Member: | | Joined: | |
| Field agent: | | Today: | |
| Service point: | | Household size: | |

| Indicator | Value | Points |
|---|---|---|
| 1. How many household members are 17-years-old or younger? | A. Four or more | 0 |
| | B. Three | 7 |
| | C. Two | 11 |
| | D. One | 17 |
| | E. Zero | 26 |
| 2. What is the general education level of the male head/spouse? | A. No male head/spouse | 0 |
| | B. Not literate, no formal school, or primary or below | 0 |
| | C. Middle | 3 |
| | D. Secondary or higher secondary | 5 |
| | E. Diploma/certificate course, graduate, or postgraduate and above | 7 |
| 3. What is the household type? | A. Labour (agricultural, casual, or other) | 0 |
| | B. Self-employed (agriculture or non-agriculture), regular wage/salary-earning, or others | 5 |
| 4. What is the primary source of energy for cooking? | A. Firewood and chips, dung cake, kerosene, charcoal, coke or coal, gobar gas, or others | 0 |
| | B. LPG or electricity | 3 |
| | C. No cooking arrangement | 9 |
| 5. Does the household possess any casseroles, thermos, or thermoware? | A. No | 0 |
| | B. Yes | 5 |
| 6. Does the household possess a television and a VCR/VCD/DVD player? | A. No, neither one | 0 |
| | B. Yes, only one | 4 |
| | C. Yes, both | 9 |
| 7. Does the household | A. No, neither one | 0 |

| | | |
|---|---|---|
| possess a mobile handset and a telephone instrument (landline)? | B. Yes, only a mobile | 9 |
| | C. Yes, a landline, regardless of mobile | 15 |
| 8. Does the household possess a sewing machine? | A. No | 0 |
| | B. Yes | 1 |
| 9. Does the household possess an almirah/dressing table? | A. No | 0 |
| | B. Yes | 5 |
| 10. Does the household possess a bicycle, motorcycle/scooter, or motor car/jeep? | A. No, none | 0 |
| | B. Yes, bicycle only, no motorcycle/scooter, or car | 1 |
| | C. Motorcycle/scooter, but no car (regardless of bicycle) | 13 |
| | D. Motor car/jeep (regardless of others) | 18 |

Unlike other poverty measurement methods, the PPI was designed with the budgets and operations of real organizations in mind; its simplicity means that it requires fewer resources to use. The PPI is a set of 10 easy-to-answer questions that a household member can answer in 5 to 10 minutes. The scored answers provide the likelihood that the survey respondent's household is living below the national poverty line and other internationally-recognized poverty lines. The PPI is country-specific. Altogether, Grameen Foundation offers poverty measurement tools for the countries that are home to 90 percent of the people in the world who fall under $1.25/day 2005 PPP. Indicators in the PPI for India are based on data from the Household Consumer Expenditure Survey - Round 66 (July 2009 to June 2010) conducted by National Sample Survey Office (NSSO). This PPI was updated in 2012. The definition of income or expenditure, the definition of a poverty line, or both has changed and legacy poverty lines have been created

## Annexure 3: Client satisfaction and awareness

Financial services—appropriateness and transparency—refer to the extent to which an organization is meeting its clients' financial needs (with different types of services and products), in relation to their capacities (cash flows and opportunities). It also includes a check at the field level, to confirm whether clients are fully aware of the terms and conditions of MFI products, and their views on and experience with services offered.

Some of the direct indicators which can be used for measuring the client awareness and satisfaction are:

- Effective interest rates, compared to alternative, accessible credit options
- Percent of client households with a member in another MFI
- Percent of client households borrowing from informal moneylender in previous year
- Client household indebtedness (all sources), as a proportion of household income
- Client exit: drop-out rate
- Client awareness:
  - Savings (if applicable), terms, interest payable, own total deposit
  - Credit—range of products and terms, including fees, interest rates, and distribution of loan installment amount between principal and interest
  - Insurance availability and terms
  - Passbooks up to date and kept by clients
  - Procedure in case of complaint
- Client feedback:
  - Meetings and frequency of transactions
  - Savings terms
  - Credit products, amounts, and timeliness
  - Insurance utility, experience
  - Non-financial services (if applicable)
- Reasons for drop-out

# Annexure 4: MIX Social Performance indicators

| Indicator category | What the indicators measure |
|---|---|
| **1. Mission and social goals** | The MFI's stated commitment to its social mission, its target market and development objectives |
| **2. Governance** | Whether members of the Board of Directors have been trained in social performance management and the presence of a formal Board committee that monitors social performance |
| **3. Range of products and services** | Both financial and non-financial products and services offered by the MFI |
| **4. Social responsibility to clients** | The number of Smart Campaign Client Protection Principles applied by the MFI |
| **5. Transparency of cost of services to clients** | How the MFI states its interest rates |
| **6. Human resources and staff incentives** | The MFI's policy regarding social responsibility to staff. This includes: human resource policies in place, board and staff composition, staff turnover rate, and staff incentives linked to social performance goals |
| **7. Social responsibility to the environment** | Whether the MFI has policies and initiatives in place to mitigate the environmental impact of financed enterprises |
| **8. Poverty outreach** | Poverty levels of clients at entry and their movement out of poverty over time |
| **9. Client outreach by lending methodology** | The type of lending methodology(-ies) employed by the MFI |
| **10. Enterprises financed and employment creation** | The number of enterprises financed by the MFI and employment opportunities created by the enterprises financed |
| **11. Client retention rate** | The client retention rate of the MFI |

## Annexure 5: ECHOS Social Performance indicators

ECHOS© is an assessment model (a kind of score card) with 5 dimensions including 43 indicators. The dimensions are the following:

1. **Mission and social vision**: This dimension analyzes the procedures that the MFI has to promote, to measure and to monitor its mission. It also includes the use of social ratings.

2. **Outreach and access**: In this dimension the tool analyzes, first, to what extent does the MFI have policies that facilitate access to financial products and secondly, the MFI's level of outreach (scale and depth). In this dimension, there are no references to the portfolio size but rather to the number of clients.

3. **Customer service quality**: This dimension analyzes different aspects of customer services; the quality of customer service, the diversity of products and services offered and the incorporation of customer protection principles (price transparency, clear policies to avoid over-indebtedness among others).

4. **Human resources**: This dimension analyzes several aspects of human resources policies, including training and development support for the staff, anti- discrimination policies, the existence of a code of ethic, and finally labour climate and staff turnover.

5. **Environment and corporate social responsibility (CSR)**: This dimension analyzes to what extent the MFI implements clear policies and processes to (I) exclude environmentally harmful activities and (II) activities that favor environmental conservation. The participation of the MFI in CSR and support to community activities is also analyzed.